

## Message Text

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ORIGIN ARA-17

INFO OCT-01 EB-11 ADP-00 TRSE-00 AID-20 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

PA-03 USIA-12 PRS-01 /142 R

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TREASURY: MBRADFIELD( SUBSTANCE)

EB/ IFD: SWEINTRAUB( SUBSTANCE)

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P R 251951 Z APR 73

FM SECSTATE WASHDC

TO AMEMBASSY LIMA PRIORITY

INFO AMEMBASSY MANILA

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E. O. 11652: GDS

TAGS: EAID, EFIN, PE

SUBJECT: STATEMENT BY U. S. ON IDB LOAN TO PERU

MANILA FOR VOLCKER AND HENNESSY

1. FOLLOWING IS TEXT OF STATEMENT MADE BY ALTERNATE  
U. S. EXECUTIVE DIRECTOR STERNFELD AT APRIL 25 MEETING  
OF IDB BOARD OF EXECUTIVE DIRECTORS WHICH APPROVED BANCO  
MINERO LOAN FOR PERU: BEGIN QUOTE

2. MY GOVERNMENT HAS INSTRUCTED ME TO ABSTAIN ON THE  
LOAN NOW BEFORE THE BOARD IN ORDER TO EXPRESS ITS DEEPEST  
CONCERN ABOUT THE CONTINUED EXISTENCE OF UNSETTLED IN-  
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VESTMENT DISPUTES IN PERU. AT THE SAME TIME I WISH TO MAKE IT CLEAR THAT MY GOVERNMENT STANDS READY TO CONSIDER A REASONABLE SETTLEMENT OF THESE ISSUES AND OUR ABSTENTION HERE TODAY CONSTITUTES A GOOD FAITH DEMONSTRATION OF THIS WILL.

3. IT IS OUR HOPE THAT THIS APPROACH WILL LEAD TO A SETTLEMENT OF THESE PARTICULAR INVESTMENT DISPUTES. IT IS APPROPRIATE, HOWEVER, FOR ME TO COMMENT AT THIS TIME ON THE MORE GENERAL QUESTION OF THE RELEVANCE OF UNSETTLED INVESTMENT DISPUTES TO DEVELOPMENT BANK LENDING. I REPORTED TO YOU IN JANUARY OF LAST YEAR ON OUR VIEWS ON

THIS MATTER AS CONTAINED IN PRESIDENT NIXON'S POLICY STATEMENT ON ECONOMIC ASSISTANCE AND INVESTMENT SECURITY IN THE DEVELOPING NATIONS.

4. THIS IS NOT A BILATERAL POLITICAL ISSUE. IT IS A QUESTION OF FULFILLING THE BANK'S BASIC PURPOSES. IT IS A QUESTION OF ACCEPTED INTERNATIONAL DEVELOPMENT POLICIES. THE BANK IS CHARGED UNDER ARTICLE I OF THE CHARTER WITH PROMOTING THE INVESTMENT OF PUBLIC AND PRIVATE CAPITAL FOR DEVELOPMENT PURPOSES AND ENCOURAGING PRIVATE INVESTMENT IN DEVELOPING ECONOMIES. THE EXPROPRIATION OF THE PRODUCTIVE INVESTMENTS OF FOREIGN NATIONALS WITHOUT THE COMPENSATION REQUIRED BY INTERNATIONAL LAW HAS A CLEARLY ADVERSE EFFECT ON THE FLOW OF THESE PRIVATE INVESTMENT FUNDS TO LESS DEVELOPED COUNTRIES. IT IS DIFFICULT, INDEED, FOR THE BANK TO CARRY OUT ITS MANDATE IF IT FOLLOWS A POLICY OF LENDING TO COUNTRIES THAT DISCOURAGE CAPITAL INVESTMENT THROUGH EXPROPRIATION WITHOUT COMPENSATION. DEVELOPMENT RESOURCES ARE SCARCE AND BECAUSE AN ADVERSE INVESTMENT CLIMATE IN ONE COUNTRY CAN AFFECT INVESTMENT IN ALL DEVELOPING COUNTRIES IT IS IMPORTANT FOR THE BANK TO SET AN EXAMPLE IN ITS ATTITUDE TOWARD LENDING TO COUNTRIES WHOSE ACTIONS TEND TO DIMINISH THE FLOW OF CAPITAL FOR ECONOMIC DEVELOPMENT. MOREOVER, I THINK IT IS IMPORTANT FOR THE BOARD TO CONSIDER THAT LENDING IN THE CIRCUMSTANCE OF EXPROPRIATION WITHOUT REASONABLE PROGRESS TOWARDS PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION COULD NOT ONLY UNDERMINE CHARTER OBJECTIVES BUT ALSO SERIOUSLY LIMITED OFFICIAL USE

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LY ERODE BASIC PUBLIC SUPPORT FOR THE MULTILATERAL DEVELOPMENT INSTITUTIONS.

5. TURNING AGAIN TO THE SPECIFIC PROBLEMS I AM CONCERNED ABOUT TODAY IT IS OUR EARNEST HOPE THAT WE CAN AVOID FACING THEM AGAIN. IN OUR VIEW, ONLY GENUINE PROGRESS TOWARDS SETTLEMENT OF OUTSTANDING DISPUTES CAN SERVE AS

JUSTIFICATION FOR BANK LENDING IN THESE CIRCUMSTANCES.

END QUOTE.

6. PERUVIAN ALTERNATE EXECUTIVE DIRECTOR PRUGUE MADE NO  
COMMENT ON STATEMENT. ROGERS

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\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

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**Subject:** STATEMENT BY U. S. ON IDB LOAN TO PERU MANILA FOR VOLCKER AND HENNESSY  
**TAGS:** EAID, EFIN, PE  
**To:** LIMA  
MANILA  
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